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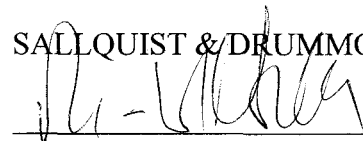
BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION) DOCKET NO. W-01427A-01-0487
OF LITCHFIELD PARK SERVICE) DOCKET NO. WS-01428A-01-0487
COMPANY FOR AN INCREASE IN ITS)
WATER AND WASTEWATER RATES FOR) **NOTICE OF FILING**
CUSTOMERS WITHIN MARICOPA)
COUNTY, ARIZONA.

Litchfield Park Service Company, by and through its undersigned counsel, hereby provides this Notice of Filing of the Rebuttal Testimonies of Dan L. Neidlinger and David W. Ellis on behalf of the Company.

Respectfully submitted this 22nd day of February, 2002.

SALLQUIST & DRUMMOND, P.C.

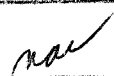

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Arizona Corporation Commission

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2 foregoing filed this 22nd day
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3 Docket Control
4 Arizona Corporation Commission
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Phoenix, Arizona 85007

6 Copy of the foregoing hand-delivered
this 22nd day of February, 2002, to:

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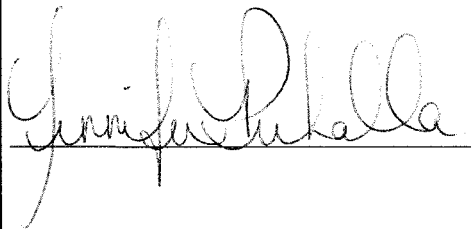
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**Before the Arizona Corporation Commission
State of Arizona**

**In the Matter of the Application for Litchfield Park Service Company
Authority to Increase Water & Sewer Rates**

ACC Docket Nos. W-01427A-01-0487 & SW-01428A-01-0487

Rebuttal Testimony of Dan L. Neidlinger

February 22, 2002

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ARIZONA CORPORATION COMMISSION

**LITCHFIELD PARK SERVICE COMPANY
DOCKET NOS. W-01427A-01 & W-01428A-01-0487**

Rebuttal Testimony of Dan L. Neidlinger

Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive, Phoenix, Arizona. I am President of Neidlinger & Associates, Ltd., a consulting firm specializing in utility rate economics.

Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY ON BEHALF OF LITCHFIELD PARK SERVICE COMPANY ("LPSCO" OR THE "COMPANY") IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF THIS ADDITIONAL TESTIMONY?

A. The purpose of this additional testimony is to comment on certain issues addressed in the direct testimonies of ACC Staff witnesses Mr. Brian K. Bozzo, Mr. Rodger D. Nash and Mr. Joel M. Reiker and the direct testimonies of RUCO witnesses Ms. Marylee Diaz Cortez and Mr. Timothy J. Coley.

Q. DOES THE FAILURE OF YOUR REBUTTAL TESTIMONY TO ADDRESS POSITIONS TAKEN OR ADJUSTMENTS MADE BY THESE WITNESSES ON OTHER ISSUES MEAN THAT YOU OR OTHER COMPANY REBUTTAL WITNESSES AGREE WITH SUCH POSITIONS OR ADJUSTMENTS?

A. No, it does not.

I. CAPITAL STRUCTURE AND COST OF CAPITAL

Q. WHAT IS THE APPROPRIATE CAPITAL STRUCTURE FOR RATEMAKING PURPOSES IN THIS CASE?

A. The appropriate capital structure for ratemaking in this case is the Company's actual capital structure at December 31, 2000 – the end of the test year. At that date, the capital structure was comprised of 25.74% long-term debt and 74.26% common equity. This is the capital structure used in the Company's filing to calculate its recommended cost of capital of 9.654%.

Q. DID RUCO ALSO ADOPT THIS CAPITAL STRUCTURE?

A. Yes.

Q. WHAT IS STAFF'S RECOMMENDED CAPITAL STRUCTURE FOR LPSCO IN THIS CASE?

A. Mr. Joel Reiker, Staff's cost of capital witness, recommends a capital structure comprised of 45.48% long-term debt and 54.52% common equity. Mr. Reiker increased the Company's long-term debt to reflect the sale in June 2001 of Industrial Development Authority ("IDA") bonds in the amount of \$7,500,000.

Q. IS THIS ADJUSTMENT APPROPRIATE IN THIS CASE?

A. No, it is definitely not appropriate. First, the adjustment produces a significant distortion in the relationship between total capital and rate base. The adjustment increases total capital by from \$20.7 million to \$28.2 million, a staggering increase of 36%, with no corresponding increase in rate base. All of the proceeds from the June 2001 IDA financing are being used to finance a new wastewater treatment plant that will be placed in service during the first quarter of 2002. None of the investment in this plant was included in rate base in this case. Accordingly, the adjustment violates all matching principles underlying sound ratemaking practices. Second, the debt and equity components of Mr. Reiker's capital structure are not properly matched since he uses a common equity balance as of December 31, 2000 and a

long-term debt balance as of June 30, 2001. The Company never has and probably never will reflect on its balance sheet the debt/equity ratio recommended by Mr. Reiker. Finally, and perhaps the most disturbing aspect of Mr. Reiker's proposed capital structure, is his apparent lack of understanding of the Company's plant expansion program, the financing of that program and the impact on future rates.

Q. PLEASE EXPLAIN.

A. As previously stated, all of the \$7.5 million of IDA debt approved by the Commission in June 2001, six months after the end of the test year, is being used to finance a new wastewater treatment plant. None of these monies have been or will be used to finance water plant. Whereas Mr. Reiker's "forward-looking" capital structure might be appropriate in determining cost of capital for the Sewer Division in LPSCO's next rate case, it certainly is not appropriate for determining cost of capital for either division in this case. The Company is cognizant of the need to develop separate capital structures for each division in its next rate proceeding due to the large differences in financing sources and associated costs between the divisions that occurred subsequent to the end of the test year. No such differentiation is necessary in this case if the actual capital structure at December 31, 2000 is used.

Q. WOULD THE ADOPTION OF STAFF'S PROPOSED CAPITAL STRUCTURE NECESSITATE ADDITIONAL INCREASES IN SEWER RATE BASE AND REVENUE REQUIREMENTS IN ORDER TO MATCH COST OF CAPITAL WITH PLANT INVESTMENT?

A. Yes, it would. Adoption of Staff's proposed capital structure would require, at a minimum, adjustments to the rate base of the Sewer Division to reflect the incremental increase in the cost of treatment capacity. As shown on the attached Schedule DLN-1, this increase in sewer rate base is approximately \$2 million. Using Staff's proposed cost of capital of 7.80% and Staff's depreciation rate for treatment facilities of 5%, an additional increase in sewer revenues of \$400,653 or 21.79% is needed to match capital structure with plant investment. This adjustment would move the required overall increase in sewer revenues

from 35% to 57%. The adjustment does not reflect other incremental increases in fixed costs that may be incurred once the treatment plant is in operation.

Q. WHAT ABOUT THE WATER DIVISION?

A. Staff's proposed capital structure is now, and for the foreseeable future, a wholly inappropriate structure for determining rate of return for the Water Division. For the reasons previously discussed, the actual capital structure at the end of the test year should be used to determine cost of capital for both divisions of the Company.

Q. HAVE YOU CALCULATED A REVISED COST OF CAPITAL USING THE COMPANY'S ACTUAL CAPITAL STRUCTURE AND MR. REIKER'S COSTS OF DEBT AND EQUITY?

A. Yes. As shown on Schedule DLN-2, a revised cost of capital of 8.32% is developed using the Company's actual capital structure and Mr. Reiker's recommended costs of debt and equity. This result is 52 basis points greater than his 7.80% cost of capital recommendation. The embedded cost of debt of the \$5,335,000 of Series 1999 IDA Bonds is 5.77%. This is the actual long-term debt at the end of the test year and excludes the \$7,500,000 of additional IDA debt included by Mr. Reiker in his proposed capital structure. Although I am in agreement with the 5.77% cost of debt, I do not agree, as discussed later in my testimony, that a cost of equity of 9.20% is reasonable in this case.

Q. WHAT IS RUCO'S RECOMMENDED COST OF CAPITAL?

A. RUCO witness Ms. Marylee Diaz Cortez recommends an overall cost of capital of 7.64%. She correctly adopted the Company's actual capital structure but adjusted the embedded cost of long-term debt from 5.77% to 1.57% by offsetting gross interest expense with interest income from the bond reserve fund. The monies in this fund have since been used to finance new utility plant. Accordingly, the interest income from this fund is nonrecurring and the correct embedded cost of long-term debt is 5.77% -- not 1.57%. As shown on Schedule DLN-3, increasing the embedded cost of debt to 5.77% increases RUCO's overall cost of capital from 7.64% to 8.73%.

Q. WHAT ABOUT MS. CORTEZ'S ASSERTION THAT USING A 5.77% EMBEDDED COST OF DEBT UNFAIRLY CHARGES RATEPAYERS WITH THE FULL COST OF THIS DEBT WITHOUT PROVIDING THEM WITH THE BENEFIT OF THE INTEREST INCOME?

A. This assertion is not correct assuming that the interest expense used to calculate income taxes at present rates was gross and not net of interest income. A review of my workpapers, however, indicates that the income tax calculation, at present rates, used in the filing was improperly calculated on a net-of-interest income basis. As a result, income taxes at present rates are overstated as are the requesting revenue increases for both the water and sewer divisions.

Q. HAVE YOU PREPARED A SCHEDULE THAT CORRECTS THIS ERROR?

A. Yes. Schedule DLN-4 shows corrected revenue increases for both divisions. These revisions were developed using an interest synchronization methodology to calculate interest expense deductions for income taxes at present rates. The revised revenue increase for the Water Division is \$846,283 or approximately \$30,000 less than the increase shown in the filing. The revised revenue increase for the Sewer Division is \$645,518 or \$76,000 less than the filed amount.

Q. DO THE REVISED REVENUE INCREASES SHOWN ON SCHEDULE DLN-4 ALSO INCORPORATE THE ADJUSTMENTS TO PROPERTY TAXES DISCUSSED LATER IN YOUR REBUTTAL TESTIMONY?

A. Yes.

Q. WHAT IS MR. REIKER'S RECOMMENDATION WITH RESPECT TO THE COST OF EQUITY?

A. Mr. Reiker recommends a 9.20% cost of equity using both a capital asset pricing model ("CAPM") method and a discounted cash flow ("DCF") method. He applied these methods using financial data from eight publicly traded water companies.

Q. HOW DOES MR. REIKER DEFINE COST OF EQUITY?

A. On page 7 of his direct testimony Mr. Reiker states: "A firm's cost of equity is that rate of return that investors expect to earn on their equity investment given the risk of the firm. An investor's expected return is equally defined as the return on equity that they expect on other investments of similar risk".

Q. DO YOU AGREE WITH THIS DEFINITION?

A. In general, I agree. However, I do not believe that Mr. Reiker has given proper consideration to either investor's expectations or the financial and business risks that are unique to LPSCO. For instance, the Value Line publication that he relied upon in his cost of equity analysis indicates that investors expect water utility stocks, on a composite basis, to provide an average return on equity of 11.5% for years 2002 through 2004. This expectation is 50 basis points higher than the Company's 11% request in this case and 230 basis points higher than his recommended 9.20%. It is apparent the Mr. Reiker's recommended cost of equity is based solely on the results of his DCF and CAPM calculations without application of any judgment or "sanity" tests.

Q. WHAT ARE "SANITY" TESTS?

A. These are end-result tests that are made to evaluate the reasonableness of cost of capital calculations. One such test is to determine how the recommended returns on total capital and equity compare with end-result or effective returns. For a variety of valid reasons, effective returns are normally somewhat lower than recommended returns. However, if the test produces a large disparity between effective and recommended returns, one should reevaluate the reasonableness of the recommended returns or the recommended rate base.

Q. HAVE YOU PERFORMED THIS TEST ON THE RECOMMENDATIONS OF STAFF AND RUCO IN THIS CASE?

A. Yes. Schedule DLN-5 shows the results of this test on Company, Staff and RUCO recommendations on return on total capital and equity. Based on the Company filing, the

effective returns on total capital and equity are 7.28% and 8.29%, respectively -- both over 200 basis points short of the recommended 9.65% cost of capital and 11% cost of equity. These shortfalls, while not insignificant, pale in comparison to the shortfalls produced by Staff's recommendations. Staff's recommendations provide an effective return on total capital of only 4.03% and an effective return on common equity of only 4.89%. These results indicate that Staff's proposals flunk the test and need to be reevaluated. RUCO's effective returns of 5.15% and 6.57% are only marginally higher than Staff's returns. Accordingly, RUCO's recommendations in this case also need to be sanitized.

Q. WHAT IS RUCO'S RECOMMENDED COST OF EQUITY?

A. RUCO witness Ms. Cortez recommends a cost of equity of 9.75%. While this recommendation is 55 basis points higher than Staff's recommendation, it is well short of the 11% request of the Company.

II. CONSTRUCTION WORK IN PROGRESS ("CWIP")

Q. DID THE COMPANY INCLUDE IN BOTH WATER AND SEWER RATE BASES CWIP RELATED TO TWO SPECIFIC PROJECTS?

A. Yes. The cost of Town Well 1A totaling \$497,475 was included as CWIP in the rate base of the Water Division and a \$1,230,049 sewer main was shown as CWIP in the rate base of the Sewer Division. Mr. Dave Ellis, General Manager of LPSCO, has discussed in detail in his rebuttal testimony each of these projects and the reasons why they should be included in rate base in this proceeding. The purpose of my rebuttal testimony on this issue is to show the revenue effect of the CWIP adjustments recommended by Staff and RUCO.

Q. WHAT IS THE REVENUE EFFECT OF STAFF AND RUCO CWIP DISALLOWANCES?

A. Schedule DLN-6 shows the adjustments proposed by Staff and RUCO for each of these projects. Staff has disallowed the bulk of Town Well 1A and over 50% of the sewer main. The effect of these adjustments is to reduce water revenue requirements by \$54,638 and

sewer revenue requirements by \$84,693 or a total reduction in revenues of \$139,331. RUCO recommends disallowing approximately 60% of Town Well 1A and 100% of the sewer main. The effect of these adjustments is to reduce water revenue requirements by \$37,013 and sewer revenue requirements by \$153,049 or a total reduction in revenues of \$190,062. These are significant adjustments that are unwarranted in view of the fact that these additions to plant were either providing service to customers during the test year (sewer main) or shortly thereafter (Town Well A1).

III. STAFF EXPENSE ADJUSTMENTS

- Q. WHAT ARE YOUR COMMENTS WITH RESPECT TO STAFF'S PROPOSED ADJUSTMENTS TO ELIMINATE MERIT PAY AND THE MANAGER'S BONUS?
- A. Staff eliminated \$51,896 (\$41,515 water and \$10,381 sewer) of merit pay to employees and the manager's bonus totaling \$25,166 (\$18,054 water and \$7,114 sewer). Mr. Ellis has discussed in his rebuttal testimony the value of merit pay and his own bonus arrangement to LPSCO. Both of these adjustments, in my view, are illogical and unwarranted. First, there is no evidence that the total compensation, including merit pay and bonus, paid to the Company's employees and General Manager is excessive. Absent such evidence, adjustments are not appropriate. Second, as Mr. Ellis discussed, pay incentives are important for attracting and holding quality employees. Finally, implicit in Staff's adjustments is the ridiculous notion that the Company ought to be staffed with employees that perform poorly and accordingly receive little, if any, merit pay.
- Q. WHAT ABOUT STAFF'S \$10,400 ADJUSTMENT TO THE WATER DIVISION'S EXPENSES RELATED TO SUNCOR'S OVERHEAD CHARGES?
- A. This is another expense reduction without merit. The \$6,000 monthly charge from SunCor is extremely reasonable considering the benefits received. These benefits are detailed in Mr. Ellis's rebuttal testimony.

IV. RUCO EXPENSE ADJUSTMENTS AND REALLOCATIONS

Q. DO YOU AGREE WITH MR. COLEY'S PROPOSED ADJUSTMENT TO SEWER TREATMENT PLANT AMORTIZATION?

A. No, I do not. The Company's filing includes an amortization of its \$4.5 million investment in Goodyear's sewer treatment facilities over 25 years – a rate of 4%. Mr. Coley recommends a 40-year amortization period and a corresponding reduction in amortization expense of \$66,096. As discussed by Mr. Ellis, the depreciation schedule applicable to Goodyear's treatment plant provides for a composite depreciation rate of 4.8%. Further, Staff Engineer Marlin Scott, Jr. is recommending a 5% depreciation rate for sewer treatment facilities. The Company's requested amortization rate, therefore, is less than the contract rate as well as Mr. Scott's recommended rate. Mr. Coley's proposed adjustment cannot be supported and should be rejected.

Q. WHAT ABOUT MS. CORTEZ'S REALLOCATION OF GENERAL AND ADMINISTRATIVE EXPENSES FROM THE WATER DIVISION TO THE SEWER DIVISION?

A. Ms. Cortez reallocated \$135,001 of Water Division general and administrative expenses to the Sewer Division using a 50/50 allocation factor rather than the 80/20 allocation that the Company used during the test year. As discussed by Mr. Ellis, with the exception of a few minor expense items, the 80/20 split more accurately reflects cost responsibility between the divisions than Ms. Cortez's proposed 50/50 split. The Commission may decide, for a variety of reasons, to shift overall revenue requirements between divisions. However, this should not be accomplished by incorrect costing.

V. PROPERTY TAXES

Q. HAVE YOU REVIEWED THE ADJUSTMENTS PROPOSED BY STAFF AND RUCO TO PROPERTY TAX EXPENSE FOR BOTH DIVISIONS?

A. Yes, I have. The adjusted property tax expense amounts included in the Company's filing for the Water Division and the Sewer Division were \$116,532 and \$128,913, respectively. These levels were calculated using the Arizona Department of Revenue's ("ADOR") formula for determining full cash value. The Company's calculations contained errors that overstated property taxes. Staff recommends a \$31,602 reduction in property taxes for the Water Division and a \$35,358 reduction for the Sewer Division based on the ADOR formula. Similarly, RUCO recommends a \$69,096 reduction in property taxes for the Water Division and a \$79,762 reduction for the Sewer Division. RUCO used an incorrect tax rate and, accordingly, its proposed adjustments are excessive. As shown on Schedule DLN-7, corrected base property taxes, as calculated on Schedule DLN-8, are \$84,668 for the Water Division and \$92,445 for the Sewer Division. These revised amounts reduce water and sewer property tax expense by \$31,864 and \$36,468, respectively. These adjustments do not reflect the additional property taxes associated with the revenue increases requested in this case.

Q. HOW SHOULD THESE ADDITIONAL TAXES BE RECOVERED?

A. Under the ADOR formula, there is a direct relationship between property taxes and revenues. In this case, for every \$1 increase in revenues, the Company's property taxes increase by \$0.02, or 2%. These incremental increases in property taxes should be reflected through an upward adjustment in the gross revenue conversion factor. The revised revenue conversion factor of 1.6834 shown on Schedule DLN-9 includes incremental property taxes of 1.9983%.

Q. DID EITHER THE STAFF OR RUCO CONSIDER THIS RELATIONSHIP IN THEIR PROPERTY TAX CALCULATIONS?

A. No. Both parties have ignored the fact that the Company will incur higher property taxes that are proportionate to the revenue increases granted in this case. This is unreasonable and is akin to ignoring the incremental increases in income taxes related to increases in revenues. Incremental increases in property taxes are known and measurable and should be included when determining revenue requirements.

VI. RATE DESIGN

Q. WHAT ARE YOUR COMMENTS WITH REGARD TO STAFF'S RECOMMENDATION TO ADD A THIRD INVERTED BLOCK TO THE COMPANY'S WATER RATE?

A. The current commodity rate for water is a two-tier rate that is inverted at 5,000 gallons. Staff witness Brian Bozzo recommends a three-tier rate with inversions at 4,000 and 20,000 gallons. This rate design, according to Mr. Bozzo, will provide additional incentives for customers to conserve. I disagree with this proposed rate design for three reasons. First, as discussed in detail by Mr. Ellis, LPSCO is already meeting its water conservation targets under the current rate design – additional price incentives are not needed. Second, Mr. Bozzo's proposed rate design shifts revenue responsibility to the larger meters, the meters that are already providing more than their fair share of revenues from a cost of service standpoint. Finally, the blocking and pricing of the proposed rate could promote instability in water revenues. The third inversion point of 20,000 gallons is too low considering the magnitude of the price differential between the second and third block.

Q. DO YOU AGREE WITH MR. ELLIS THAT STAFF'S PROPOSED RATE OF \$1.50 PER THOUSAND GALLONS IS TOO LOW?

A. Yes. The Company is proposing a rate of \$2.50 per thousand gallons. As discussed by Mr. Ellis, construction water service is an administrative burden on the Company. Further, in my view, it is temporary service that commands a premium price. Staff's proposed lower rate for construction water unfairly transfers \$25,000 of revenue responsibility to full-time customers of the Company.

Q. DO YOU HAVE ANY COMMENTS ON THE SEWER RATE DESIGN PROPOSALS OF MR. COLEY AND MR. NASH?

A. RUCO witness Coley recommends an increase in residential sewer rates that is 77% of the total recommended percentage increase in revenues for the Sewer Division; Staff witness

Nash's proposed increase for residential customers is only 68% of the overall percentage increase in revenues recommended by Staff. Based on cost of service, the increase in residential sewer rates should be at or near the overall increase in sewer revenues.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

LITCHFIELD PARK SERVICE COMPANY
ACC DOCKET NOS. W-01427A-01-0487 & SW-01428A-01-0487

**Minimum Increase in Sewer Rate Base and Revenue Requirements Needed
to Match Staff's Capital Structure With New Investment in Treatment Capacity**

DESCRIPTION	AMOUNT
Capacity in Goodyear Plant - End of Test Year	1.4 MGD
New Treatment Plant Cost at \$4.70 Per Gallon	\$6,580,000
Less: Accumulated Depreciation (1)	-329,000
Net Plant Cost of New Treatment Capacity	\$6,251,000
Cost of Treatment Capacity in Rate Base	\$4,460,750
Less: Accumulated Amortization	-178,430
Net Cost of Current Treatment Capacity	\$4,282,320
Increase in Treatment Plant Rate Base	\$1,968,680
Staff Rate of Return (2)	7.80%
Increase in Return	\$153,557
Gross Revenue Conversion Factor	1.6286
Increase in Revenues - Rate Base	\$250,083
Increase in Depreciation	150,570
Total Additional Increase in Sewer Rev. Req.	\$400,653
Percentage Increase - Additional Revenues	21.79%
Percentage Increase - Per Adjusted Filing (3)	35.11%
Total Percentage Increase	56.90%

NOTES:

- (1) Based on 5% Depreciation Rate Recommended by Staff Engineer Marlin Scott, Jr.
- (2) Recommended Cost of Capital of Staff Witness Joel Reiker
- (3) Per Schedule DLN-4

Schedule DLN - 2
Rebuttal

LITCHFIELD PARK SERVICE COMPANY
ACC DOCKET NOS. W-01427A-01-0487 & SW-01428A-01-0487

Calculation of Weighted Cost of Capital Using Year-End Capital Structure
and Staff's Recommended Cost of Equity

DESCRIPTION	AMOUNT AT 12-31-00	PERCENT	COST	WEIGHTED COST
Long-Term Debt	\$5,335,000	25.74%	5.77%	1.49%
Common Equity	15,388,544	74.26%	9.20%	6.83%
Total Capital	<u>\$20,723,544</u>	<u>100.00%</u>		<u>8.32%</u>

Schedule DLN - 3
Rebuttal

LITCHFIELD PARK SERVICE COMPANY
ACC DOCKET NOS. W-01427A-01-0487 & SW-01428A-01-0487

**Calculation of Weighted Cost of Capital Using RUCO's Recommended
Cost of Equity and Revised Embedded Cost of Debt**

DESCRIPTION	AMOUNT AT 12-31-00	PERCENT	COST	WEIGHTED COST
Long-Term Debt	\$5,335,000	25.74%	5.77%	1.49%
Common Equity	15,388,544	74.26%	9.75%	7.24%
Total Capital	<u>\$20,723,544</u>	<u>100.00%</u>		<u>8.73%</u>

LITCHFIELD PARK SERVICE COMPANY
ACC DOCKET NOS. W-01427A-01-0487 & SW-01428A-01-0487

Corrected Increase In Gross Revenue Requirements - Water & Sewer Divisions

DESCRIPTION	AMOUNT
WATER DIVISION:	
Adjusted Operating Income - As Filed	\$70,753
Adjusted Operating Income - Corrected	105,812
Operating Income Deficiency - As Filed	537,781
Operating Income Deficiency - Corrected	502,722
Increase in Gross Rev. - As Filed	875,837
Increase in Gross Rev. - Corrected (1)	846,283
Percentage Increase - As Filed	52.02%
Percentage Increase - Corrected	50.27%
SEWER DIVISION:	
Adjusted Operating Income - As Filed	\$456,931
Adjusted Operating Income - Corrected	516,310
Operating Income Deficiency - As Filed	442,840
Operating Income Deficiency - Corrected	383,461
Increase in Gross Rev. - As Filed	721,214
Increase in Gross Rev. - Corrected (1)	645,518
Percentage Increase - As Filed	39.23%
Percentage Increase - Corrected	35.11%

NOTES:

(1) Increase Calculated Using Gross Revenue Conversion Factor of 1.6834 Per Schedule DLN-9

LITCHFIELD PARK SERVICE COMPANY
ACC DOCKET NOS. W-01427A-01-0487 & SW-01428A-01-0487

Comparison of Effective Returns on Total Capital & Common Equity - Company, Staff & RUCO

DESCRIPTION	PER COMPANY FILING	PER STAFF FILING	PER RUCO FILING
Operating Income Requirement	\$1,508,367	\$1,170,083	\$1,067,054
Less: Interest Expense (1)	-232,802	-417,480	-56,083
Income Available for Common Equity	\$1,275,565	\$752,603	\$1,010,971
Total Capital	\$20,723,544	\$29,024,313	\$20,723,544
Effective Return on Total Capital	7.28%	4.03%	5.15%
Recommended Cost of Capital	9.65%	7.80%	7.64%
Return Short-Fall	2.37%	3.77%	2.49%
Percentage Short-Fall	25%	48%	33%
Common Equity at 12-31-00	\$15,388,544	\$15,388,544	\$15,388,544
Effective Return on Common Equity	8.29%	4.89%	6.57%
Recommended Equity Return	11.00%	9.20%	9.75%
Return Short-Fall	2.71%	4.31%	3.18%
Percentage Short-Fall	25%	47%	33%

NOTES:

(1) Interest Synchronization Calculation

LITCHFIELD PARK SERVICE COMPANY
ACC DOCKET NOS. W-01427A-01-0487 & SW-01428A-01-0487

Revenue Effect of CWIP Disallowances

DESCRIPTION	PER COMPANY FILING	PER STAFF FILING	PER RUCO FILING
WATER DIVISION:			
Town Well 1A	\$497,475	\$54,411	\$200,000
CWIP Disallowance		443,064	297,475
		<u>\$497,475</u>	<u>\$497,475</u>
Rate of Return		7.80%	7.64%
Disallowed Return		\$34,559	\$22,727
Revenue Conversion Factor		1.5810	1.6286
Revenue Impact		\$54,638	\$37,013
SEWER DIVISION:			
Sewer Main	\$1,230,049	\$563,336	\$0
CWIP Disallowance		666,713	1,230,049
		<u>\$1,230,049</u>	<u>\$1,230,049</u>
Rate of Return		7.80%	7.64%
Disallowed Return		\$52,004	\$93,976
Revenue Conversion Factor		1.6286	1.6286
Revenue Impact		\$84,693	\$153,049
Total Revenue Impact of CWIP Disallowances		<u>\$139,331</u>	<u>\$190,062</u>

LITCHFIELD PARK SERVICE COMPANY
ACC DOCKET NOS. W-01427A-01-0487 & SW-01428A-01-0487

Adjustments to Base Property Taxes

DESCRIPTION	PER COMPANY FILING	PER STAFF FILING	PER RUCO FILING
WATER DIVISION:			
Property Taxes - Per Books	\$74,019		
Pro Forma Adjustment	42,513		
Property Taxes - Per Company Filing	<u>\$116,532</u>	\$116,532	\$116,532
Pro Forma Adjustments to Company Amount		-31,602	-69,096
Property Taxes - Per Report		<u>\$84,930</u>	<u>\$47,436</u>
Corrected Property Taxes - ADOR Formula	\$84,668		
Property Tax Correcting Adjustments	<u>-31,864</u>	<u>-262</u>	<u>\$37,232</u>
SEWER DIVISION:			
Property Taxes - Per Books	\$92,835		
Pro Forma Adjustment	36,078		
Property Taxes - Per Company Filing	<u>\$128,913</u>	\$128,913	\$128,913
Pro Forma Adjustments to Company Amount		-35,358	-79,762
Property Taxes - Per Report		<u>\$93,555</u>	<u>\$49,151</u>
Corrected Property Taxes - ADOR Formula	\$92,445		
Property Tax Correcting Adjustments	<u>-36,468</u>	<u>-\$1,110</u>	<u>\$43,294</u>

LITCHFIELD PARK SERVICE COMPANY
ACC DOCKET NOS. W-01427A-01-0487 & SW-01428A-01-0487

Calculation of Base Property Taxes Using ADOR Formula

DESCRIPTION	WATER DIVISION	SEWER DIVISION
1998 Revenues	\$1,122,186	\$1,041,200
1999 Revenues	1,433,289	1,420,123
2000 Revenues - Adjusted	1,683,603	1,838,298
Total	\$4,239,078	\$4,299,621
Average	1,413,026	1,433,207
Average X 2	2,826,052	2,866,414
Plus: 10% CWIP	5,441	219,714
Less: Licensed Vehicles	-6,860	-2,065
Full Cash Value	\$2,824,633	\$3,084,063
Assessment Ratio	0.25	0.25
Assessed Value	\$706,158	\$771,016
Property Tax Rate Per \$100 Assessed Value	11.99	11.99
Property Tax Expense - Pro Forma	<u>\$84,668</u>	<u>\$92,445</u>

LITCHFIELD PARK SERVICE COMPANY
ACC DOCKET NOS. W-01427A-01-0487 & SW-01428A-01-0487

Calculation of Revised Revenue Conversion Factor to Include Incremental Property Taxes

DESCRIPTION	PERCENTAGE
Federal Income Taxes	31.6300%
State Income Taxes	6.9680%
Total Income Taxes	38.5980%
Incremental Property Taxes	1.9983%
Total Taxes	40.5963%
Gross Revenue Conversion Factor	1.6834

ORIGINAL

**LITCHFIELD PARK SERVICE COMPANY
DOCKET NOS. WS-01427A & WS-01428A-01-0487
RATE APPLICATION**

**REBUTTAL TESTIMONY
OF
DAVID W. ELLIS**

**FILED
FEBRUARY 22, 2002**

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1 **REBUTTAL TESTIMONY OF DAVE ELLIS**

2 Q. Please state your name and business address.

3 A. My name is David W. Ellis. My business address is 111 West Wigwam, Suite B,
4 Litchfield Park, Arizona 85340

5 Q. By whom are you employed and in what capacity?

6 A. I am the General Manager at Litchfield Park Service Company. I have been so employed
7 since 1998.

8 Q. Please give me a brief synopsis of your education and training.

9 A. I have a BS degree in engineering from Massachusetts Maritime Academy, am a
10 registered professional engineer in both Arizona and California, and am a licensed general
11 contractor in Arizona.

12 Q. Please give a brief resume of your experience in the utility business.

13 A. I have been in the utility business for over 40 years with Boston Edison, Arizona Public
14 Service Company, and Litchfield Park Service Company. I have held positions in engineering,
15 operations, construction, customer service, and energy and project management ranging from
16 junior engineer to vice president and general manager. The experience includes water,
17 wastewater, electricity, gas, and steam.

18 Q. Are you familiar with the rate application pending before the Commission?

19 A. Yes, I assisted the Company personnel, consultants and attorneys in preparation of the
20 case.

21 Q. Have you reviewed the various testimonies and exhibits filed by the parties to this
22 proceeding?

23 A. Yes I have.

1 Q. Do you have issues with the parties regarding specific water or wastewater
2 recommendations?

3 A. Yes, I will be commenting on a number of issues for both the water and wastewater
4 divisions that were raised by the ACC Staff and RUCO.
5

6 **Summary**

7 Q. Will you please summarize the issues that you will address in this Rebuttal Testimony?

8 A. I will speak to several wastewater issues including the recommendation to exclude
9 Construction Work in Progress (CWIP) associated with a major collection main that was in
10 service during the Test Year. I will also address RUCO's recommendation regarding the useful
11 life of the wastewater facilities. I will also explain why it is important that the Company have
12 "Market Rate" effluent pricing which will benefit the Company, our customers, and the efficient
13 use of Arizona's water resource. The final wastewater issue I will address is the recommended
14 elimination of certain odor control expenses the Company has incurred.

15 In regard to water service issues, I will address the recommendation that disallows CWIP
16 for a major new well now serving our customers, the recommendation that disallows certain legal
17 costs and water testing expenses, and the Staff's proposed revision to our rate design by adding
18 an additional, and unneeded, tier.

19 I will also rebut Staff's recommendation to include our recent Industrial Development
20 Authority funding proceeds in the Company's capital structure. The funds were not available
21 during the test year and the Palm Valley Wastewater Reclamation Plant (PVWRP) constructed
22 with those funds was not yet started and none of LPSCO's investment in the PVWRP is included
23 in the Test Year rate base. I will explain why the Company utilizes Merit Pay to make its

1 employees more efficient. I will support the Company's allocation of Administrative and General
2 expenses on an 80%/20% basis between the water and wastewater divisions, address the
3 reasonableness of our corporate overheads, and support our office rent expense.

4 My testimony will also support a revised Tariff. And finally, I will respond to the City of
5 Litchfield Park's concerns with our application.

6 7 **I. WASTEWATER DIVISION**

8 **Construction Work in Progress (CWIP)**

9 Q. What are your comments which regard to the CWIP Adjustments proposed by RUCO and
10 Staff?

11 A. The first issue is RUCO's recommendation that all of a \$1.2 million wastewater
12 transmission line, classified as CWIP in the filing, be excluded from the Wastewater rate base.
13 Staff also disallowed \$666,713 of this transmission line from the rate base.

14 The \$1,230,049 CWIP item is for the new sewer line running from east of Dysart Road
15 and Indian School Road to Thomas and Litchfield Roads. The line was scheduled to be in service
16 in June, 2000. The contractor had completed the line with the exception of the portion
17 immediately adjacent to the Roosevelt Irrigation District (RID) Canal. The contractor
18 undermined the canal while attempting to put this last piece of the sewer line into service. The
19 Canal broke. Consequently, the RID would not allow the contractor back into its right-of-way to
20 finish the installation until the canal was out of use in November, 2000.

21 The portion of the new line north of the RID Canal, was in service in mid-August, 2000.
22 The remainder of the line was placed in service on November 29, 2000, after the section adjacent
23 to the canal was completed. (Please see attached Exhibit A for a sketch of work area).

1 The line currently carries major flows from customers in the City of Litchfield Park, two
2 Hancock Homes subdivisions east and north of Litchfield Park, Dreaming Summit, Standard
3 Pacific, and Continental Homes Developments north of Indian School Road. The only reason the
4 line was classified as CWIP on LPSCo's books at year-end was the delay on final bookkeeping
5 of the project.

6 Because of the canal break and insurance claims, and related delay in identifying the
7 exact cost of the project, some of the entire cost of the line was not finalized until 2001. The line
8 was in service and was serving over 100 customers at the end of the Test Year and literally
9 hundreds of customers today. Accordingly, the line should be included in the Company's rate
10 base in this proceeding.

11 12 **Wastewater Treatment Plant Equipment Useful Life**

13 Q. Will you please explain the next issue you have regarding wastewater recommendations?

14 A. Yes, RUCO is recommending that the wastewater treatment plant equipment be
15 depreciated using a 40-year useful life and reduced treatment amortization by \$66,096. This is
16 not supportable and is in conflict with the Staff's recommendation of 20 years.

17 Q. What was the useful life used in the Company's filing?

18 A. 25 years.

19 Q. What is Staff's proposed useful life?

20 A. The ACC Staff Report recommends that 20-year amortization be used for LPSCO's
21 capacity in the City of Goodyear's wastewater treatment plant. LPSCO believes that the Staff's
22 20-year overall schedule is reflective of the correct weighted average life of plant and equipment
23 in a wastewater treatment facility.

1 Much of the equipment found at a wastewater facility operates in a very corrosive
2 environment, which substantially reduces the effective life of any equipment. This is particularly
3 true for the front and back ends of the plant, as well as odor control and measurement equipment.
4 Mechanical piping systems and pumps will more typically have an actual life in the 8-15-year
5 range, as will electrical motors and controls. Only concrete tanks and structures might approach a
6 40-year life.

7 An actual depreciation rate schedule (See Exhibit B) from the LPSCO/City of Goodyear
8 Wastewater Treatment Agreement is attached. This is the facility that processed the LPSCO
9 wastewater during the Test Year. This depreciation schedule reflects the original cost of the
10 plant components and their expected lives. The depreciation rate schedule composite is 20.8
11 years, not the 40 years suggested in the RUCO response.

12 **Effluent Pricing**

13 Q. Do you have other Wastewater issues?

14 A. Yes, RUCO has indicated that it is opposed to a market rate for pricing effluent because
15 LPSCO has no effluent to sell.

16 This is not the case. LPSCO has had the Palm Valley Water Reclamation Plant
17 (PVWRP) physically under construction since mid 2001. It is in the final stages of completion
18 and testing at the time of this writing and will be in service before the hearing on this matter.
19 LPSCO should obtain an operating permit for the PVWRP by April 1, 2002, after which time
20 LPSCO will have its own effluent to sell or, if not competitively priced, to dispose of.
21
22
23

1 Disposal of effluent in a proper manner is a large and costly problem for most operators
2 of wastewater treatment facilities. Proper effluent disposal is a requirement in LPSCO's Aquifer
3 Protection Permit that is issued by the Arizona Department of Environmental Quality.

4 LPSCO is fortunate to have customers close to the PVWRP that are able and willing to
5 use effluent, assuming the price is right. That price needs to be competitive with alternative
6 water supply opportunities that the individual customer might have. Some of the potential
7 effluent customers have grandfathered groundwater rights. In those instances, the effluent price
8 must beat the operating costs of the customers' wells.

9 There are four golf courses, numerous farm fields, schools, and landscape irrigation
10 opportunities in close proximity to the PVWRP and LPSCO has an effluent delivery system in
11 place to allow effluent deliveries to these potential customers.

12 A market rate for effluent is necessary to insure that LPSCO can maximize effluent sales
13 to these potential customers. Effluent that is not utilized by the golf courses will have to be
14 disposed of by LPSCO at its Groundwater Saving Facility (GSF). The disposal process is a cost,
15 not a revenue like an effluent sale.

16 In addition there is the environmental and water resource benefit. The direct use of
17 effluent results in less pumped groundwater. Future revenues obtained from the sale of effluent
18 will be a direct offset to the cost of operating the PVWRP. LPSCO needs a competitive market
19 effluent rate to maximize that opportunity.

20 Q. What if LPSCO is unable to sell any effluent at \$52.50 per acre foot due to market
21 conditions?

22 A. The lost revenue which would have offset wastewater treatment expenses will result in
23 higher costs that must be borne by wastewater customers.

1 **Odor Control at Lift Station**

2 Q. I believe there is a fourth waste water item with which you did not agree.

3 A. Yes. RUCO has recommended eliminating a \$13,154 expense item for odor control at the
4 Wigwam Outlet Lift Station. The charge is for the investigation and resolution of the odor source
5 and the subsequent lease of a carbon scrubbing odor control unit that has been in service at the
6 lift station.

7 There is a commercial office building immediately to the west of the lift station and
8 LPSCO regularly received odor complaints from the building's owner prior to the installation of
9 the odor control unit.

10 The carbon scrubber unit has done an effective job at controlling odors at this facility and
11 remains in service.

12 The \$350 charge is cost for renting a portable analyzer to assist in establishing the size of
13 the carbon scrubber unit. This is a legitimate charge associated with the day to day operations of
14 our wastewater system.

15 **II. WATER DIVISION**

16 **Town Well 1A (CWIP)**

17 Q. Will you please speak to the first concern you have about water recommendations by
18 RUCO?

19 A. LPSCO drilled a new well, known as Town Well 1A, in early spring 2001. The well was
20 completed and went into service in June 2001. It is an excellent well producing 1,000 gallons per
21 minute (gpm) of very low nitrate, low arsenic, medium-level suspended solids water. It is being
22 used as the primary well on the LPSCO system because of its high water quality and the
23 efficiency of the well. This well was under construction during the Test Year and was included

1 as CWIP in the rate filing in an amount of \$497,475. Staff disallowed \$443,064 from rate base
2 and RUCO disallowed \$297,475.

3 The well will have been in service for nearly one full year at the time of the hearing.
4 LPSCO believes that this well must be included in the plant in service for this rate case.
5

6 **CAP – Legal Expenses and Water Testing Costs**

7 Q. Do you object to some of the expense adjustments proposed by Staff and RUCO to the
8 Water Division expenses?

9 A. Yes, for instance, RUCO eliminated \$10,934 of legal fees related to CAP water issues.

10 LPSCO has a 5,580 acre-foot allocation of CAP water. The ongoing capital payments associated
11 with this allocation are approximately \$250,000 per year.

12 For some time now LPSCO has been searching for a way to be able to retain its CAP
13 allocation in the long run, while reducing/eliminating the short-term burden, for example, a lease
14 to a third party. LPSCO is presently working with Department of Water Resources and the
15 Groundwater Replenishment District to accomplish that. We are talking to the GRD about taking
16 our allotment to satisfy their present needs for the LPSCO service area, while at the same time
17 leaving the door open to recapture and return the allotment to LPSCO at a future date if LPSCO
18 desired.

19 LPSCO is not asking the annual CAP contract cost to be included in rates, but it is
20 requesting that ongoing legal costs be allowed. The experience we have gained in understanding
21 DWR's transfer rules and process from the earlier attempt has been invaluable. LPSCO believes
22 that the legal expenses from the CAP transfer attempt should not be disallowed in this rate case
23 as proposed by RUCO.

Water Testing Requirements and Expenses

Q. Staff has reduced your actual water testing costs incurred during the Test Year, is that correct?

A. The Staff has recommended that \$16,083 of the water testing costs that the Company incurred be eliminated, and that a Staff computation based on typical testing schedule be used instead. Unfortunately, that calculation does not reflect the many times a year that the Company has to do water testing that is not specifically required by regulation, or in a typical annual schedule.

In the past few years, LPSCO has had baseline new source approval testing, start-up testing for copper and lead, TCE monitoring, baseline source testing for a Maricopa County water blending program, baseline arsenic testing along with its problem of "black specs" in the water. As the Company adds customers the number of bacteria testing points on the system also increases.

All of these tests, except the normal bacteria tests, fall outside of the normal mandated testing requirements, but are necessary in the day-to-day operation of a growing water utility company. LPSCO will continue to grow and incur these necessary testing costs.

Staff's Proposed Construction Water Tariff and Rate Tiers

Q. Please comment on the Staff position on Construction Water rates?

A. LPSCO has requested a rate for construction water of \$2.50 per 1,000 gallons. The Staff is recommending a \$1.50 rate. The amount of time that is spent on providing, connecting, monitoring, billing, and controlling construction related water is many times that of a normal customer.

1 LPSCO supplies construction water to contractors and developers on an "as available"
2 basis. It is a premium service that builders are delighted to have available to them. The increased
3 costs should be borne by the builders and contractors whose projects benefit from the premium
4 service. LPSCO firmly believes that \$2.50/1000 gallons is a fair and justified rate for
5 construction water.

6 Q. Your Tariff also proposes a water theft provision does it not?

7 A. Yes, water theft associated with construction projects is a large and continuing problem.
8 It seems like it is an every week occurrence lately.

9 LPSCO has asked for an administrative penalty to be imposed on first and second
10 occurrences of water theft: the amount of \$1,000 for the first offense and \$5,000 for the second
11 offense. We believe this will be effective in reducing the number of offenses.

12 Only the general contractor on site, and not LPSCO, is in a position to control the
13 unauthorized and un-metered use of water at the construction site. We will require the contractor
14 to sign an agreement to control water theft and access an administrative penalty when he doesn't.
15 We believe this is prudent policy that benefits all concerned.

16 Q. Do you have any other tariff additions/changes?

17 A. Yes, LPSCO has modified its tariff to clarify that the service line and meter and meter
18 box are separate items in the tariff. The cost of a ¾" meter & meter box is \$225, a 1" meter and
19 meter box is \$300, a 2" meter and meter box is \$675. The service line will be installed by the
20 developer/customer and included in the agreement for service or the line extension agreement.
21 The cost for meters larger than 2" will be at cost.

22 Q. What is your position on the three tier rate design recommend by Staff?

1 A. I believe it is inappropriate. LPSCO presently has a rate design with two-tiers. The first
2 two includes 5,000 gallons of water. All usage above that amount is charged at a higher amount.

3 There has been over a 30% reduction in the per customer average usage since the last rate
4 case in 1996. LPSCO's average Gallons per Customers per Day (GPCD) that must be monitored
5 pursuant to ADWR requests, has fallen. Our customers are already conserving significantly.
6 That, along with more efficient appliances and higher rates, lead us to expect this trend to
7 continue.

8 LPSCO believes that the existing rate structure is effective from a conservation design
9 standpoint and is serving LPSCO well. It's not broken, so we don't believe we should fix it.

10 Q. Your introductory comments indicated there are issues common to both water and
11 wastewater?

12 A. Yes, these include the proposed capital structure, four expense items, and the City of
13 Litchfield Park's Testimony.

14 15 **III. ISSUES COMMON TO BOTH DIVISIONS**

16 **Capital Structure**

17 Q. Have you reviewed the Capital Structure as proposed by Staff?

18 A. Yes, Mr. Neidlinger addresses this issue in greater detail in his Rebuttal Testimony. The
19 Staff has made a recommendation that the \$7,500,000 in new debt financing that was approved
20 after the Test Year and for specific use of the construction of the new PVWRP should be
21 included in capital structure for computation of its rate of return calculations. However, none of
22 the new PVWRP investment, for which the debt financing was incurred, is included in the
23 wastewater rate base in this case.

1 Staff's treatment does not reflect the Company's capital structure during the Test Year
2 and represents unfair financial manipulation of the rate of return calculation to the Company's
3 detriment.

4 If post Test Year capital is to be applied to return calculations, then the cost of the plant
5 represented by that capital should also be included in the rate of return calculation. To do
6 otherwise seems to be extremely unfair and inappropriate.

7 **Merit (incentive) Pay**

8 Q. What are your concerns with the Company wide adjustments that the Parties propose?

9 A. Staff has disallowed portions of our payroll merely because it is called "Merit Pay".
10 Merit pay is very important in attracting and retaining the best employees. It often times allows
11 the employer to seal the deal when hiring exceptional employees. It fosters team play and team
12 accomplishments. It also promotes pride in the organization and encourages individual
13 performance.

14 LPSCO does not pay high base salaries to its employees. LPSCO has a compensation
15 philosophy that reflects an overall compensation package that is incentive-based. The two highest
16 paid employees have a combined salary and merit (incentive) pay as follows:

- 17 • Employee #1 \$58,997 (total for both base and merit)
- 18 • Employee #2 \$52,211 (total for both base and merit)

19 My services to LPSCO are on a contract basis through Advanced Energy Strategies, and I
20 provide all my own health care and insurance benefits, transportation, office decorations, cell
21 phone, etc. These typically amount to 30% of normal base pay. Approximately 25% of my total
22 compensation package comes in the form of "incentive pay". Without that incentive pay my base
23

1 rate would have to be substantially higher. No party has suggested that my total pay, or that of
2 any other employee, is unreasonable.

3 I am confident enough to put a substantial amount of my total pay at risk for specific
4 performance because I believe that I will meet or exceed my incentive objectives because I work
5 hard and have a lot of pride in my work. Attached is a list (see Exhibit C) of the goals set for me
6 most recently. As you can see, they are goal oriented--meaningful and measurable.

7 Things happen in this world for a reason. When incentives are in the right direction,
8 things just happen in the right direction. LPSCO has just completed a 4.1 million gallon per day
9 water reclamation facility. The \$18,000,000 project was built in nine months and \$200,000 to
10 \$300,000 under budget. This accomplishment resulted both from good project management, and
11 also from a construction contract with the right incentives (both reward and penalty). For
12 example, the contracts for the major contractors had a \$2,000 to \$5,000/day incentive and a
13 \$2,000 to \$5,000/day penalty. Believe me, there was no need to be on the contractors back about
14 meeting or beating the schedule – the incentives were in that direction and automatically took
15 care of that!

16 The same is true for LPSCO's employees. To disallow merit or incentive pay is not in the
17 best interests of LPSCO or its customers.

18 **Allocation of Administrative Costs**

19 Q. Do you believe the recommended reallocation of \$135,000 in administrative costs from
20 the wastewater division to the sewer division reflect the actual use of those administrative
21 functions?
22
23

1 A. No. In my experience at LPSCO the amount of administrative time that is spent on the
2 water system is many times greater than the sewer system. A number of things account for this.

3 Some of those are:

4 • Water is a service in which the sale varies monthly, as opposed to sewer service
5 which is a fixed monthly quantity. There are no high bill complaints to be reconciled with
6 sewer customers. The paperwork associated with the sewer system is much less than for a
7 water connection.

8 • The water system is a high-pressure system as opposed to the sewer system which
9 is a gravity-flow system with little or no pressure. There are few complaint calls from the
10 sewer system. We do not get any low pressure calls on the sewer system.

11 • Water consumption is under strict reporting rules of the Department of Water
12 Resources and the Groundwater Replenishment District. Water withdrawal/usage and
13 accounting is very laborious and tedious. There are no such rules for the sewer system.
14 LPSCO's current and Test Year wastewater system is basically a collection and
15 transmission system. Many of the administration costs associated with wastewater
16 treatment are included in the rate that LPSCO pays the City of Goodyear for the
17 wastewater treatment service the City provides.

18 • Time spent by management, accounting, and customer service on the water
19 system, typically exceeds that spent on the sewer system by a large degree. The majority
20 of the expenses should follow the labor in these areas.

21
22 There are some items such as postage, bad debt expense, bank service charge, etc. that are
23 identical from an administrative standpoint, but they are small when considering the total

1 administrative expenses. The existing 80/20% split is very appropriate from my daily
2 observations.

3 **SunCor Overheads**

4 Q. How about the allocation of SunCor overheads Staff disallowed?

5 A. SunCor provided a number of administrative functions for LPSCO during the test year.
6 These included Financial Accounting, corporate officers, in-house legal services, Payroll, Human
7 Resources, Medical, 401K savings plan and computer support etc. Being part of the larger
8 SunCor organization allows LPSCO to have efficient, economic organization and capital
9 structure that normally would only be available to a much larger utility.
10

11 The amount SunCor charged to LPSCO was \$72,000 – an increase of \$12,000 per year
12 from the previous rate of \$60,000. The \$60,000 overhead charge had been in place since 1995.
13 Frankly, the cost from SunCor far outweighs the costs that LPSCO and the rate payers would
14 have to bear if SunCor did not supply these services. These were real services needed for
15 LPSCO's operations and that cost must be allowed. As a result of SunCor's support, LPSCO has
16 no human resources or benefits department, no finance department, and a minimal accounting
17 staff.

18 **Office Rents**

19 Q. What is your final expense disagreement with RUCO?

20 A. RUCO has recommended the elimination of \$1,983 of office rent because the
21 amortization of office improvements had expired.
22
23

1 LPSCO's offices in Litchfield Park are extremely modest and we are quite cramped for
2 space, (as anyone who has been there knows). As we speak we are doing a small expansion that
3 will give us approximately 400 square feet of additional space.

4 There will be a leasehold improvement cost associated with this space as there was with
5 the last, plus the additional rent associated with this expansion. Disallowance of this item is not
6 consistent with LPSCO's rapid growth and ongoing needs.

7 **Tariff Format**

8 Q. Mr. Ellis, you have also filed a revised Tariff with this testimony, is that correct?

9 A. Yes, we made several clarifications to the Tariff since the original filing with the Application
10 on June 15, 2001. The first revision was to the Hook-Up Fee provision as required in Decision
11 No. 63775. That was previously provided in a Supplemental to Rate Application on July 20,
12 2001.

13 Q. Are there other changes or corrections?

14 A. We have expanded the Construction Water provisions to address a major concern of the
15 Company, that is, the unauthorized use of Construction Water. Additionally, we have modified
16 the Late Payment Charges and Connect Charges for both water and wastewater in accordance
17 with Staff's recommendations, and the also clarified the Water Meter Advance Policy. There are
18 several other minor revisions to our original Tariff filing.

19 Q. Are you requesting that the Commission review and approve this form of Tariff?

20 A. We recognize that there will be changes in the rates, charges, terms and conditions in the
21 context of this proceeding, but we would like the decision to adopt the format which would then
22 be submitted as a compliance filing in accordance with to the Commission's Decision.

23 Q. Have attached that Revised Tariff to this testimony?

1 A. Yes, it is marked as Exhibit D, the Revised Exhibit C to the Application.

2
3 **Litchfield Park Testimony**

4 Q. Please respond to the City's Direct Testimony.

5 A. The City of Litchfield Park (Litchfield Park) seems to be concerned that it may be paying
6 costs that are not reflective of costs that its residents cause on the system. LPSCO has one rate
7 area and believes that the citizens of Litchfield Park benefit significantly by being part of a larger
8 integrated system.

9 In recent years the surrounding area has grown faster than Litchfield Park, and as a result
10 LPSCO's investment in the system is perceived as only benefiting the growth areas. This
11 perception is not accurate. Litchfield Park has recently approved plans for the Village at
12 Litchfield Park. This project will increase the number of LPSCO customers in Litchfield Park by
13 approximately 1,700. Water and wastewater facilities will have to be installed to serve these
14 customers in the same manner that is necessary to serve all customers.

15 While it is true that the investment in water and sewer systems in parts of Litchfield Park
16 is less than the newer parts of the system due to the age of Litchfield Park's system, these
17 systems are more expensive to maintain. In fact, the amount of maintenance and replacement
18 work on the total LPSCO system is driven primarily by the requirements in Litchfield Park. The
19 delivery system in other areas is new and requires minimal maintenance and repair. Since the last
20 rate case, LPSCO has invested money on improving or replacing the aging water and wastewater
21 systems in Litchfield Park. Many of these projects are done in coordination with the City's road
22 maintenance program. A few of the recent projects within Litchfield Park are as follows:

- Approximately 200 fire hydrants have been replaced to bring hydrants up to current standards.
- Approximately 160 galvanized water service lines have been replaced in the area just north of the lake.
- Water lines have been replaced and relocated on Litchfield Road south of Wigwam Blvd.
- Sewer lines have been rebuilt on Villa Nueva.
- The Booster pump has been replaced in Litchfield Greens.

Additionally, new wells, water mains, and pumping and disinfection equipment have been added which directly benefit the citizens of Litchfield Park.

The Company recently has budgeted and authorized the replacement of approximately 150 service lines in Litchfield Greens to replace older lines that have been breaking. The project is scheduled to be completed during the first half of 2002.

1 **Conclusion**

2 Q. Mr. Ellis, will you please summarize your position on this Application?

3 A. LPSCO believes that it is very important to have full cost recovery in this rate case based
4 on Test Year information. LPSCO is currently building a new water reclamation facility that will
5 come on line in 2002. The installed price of the 4.1 million gallon per day facility, and its
6 associated collection and effluent piping, will be in the \$4.50/gallon range, which may require
7 LPSCO to file for additional rate relief associated with the new facility in the future. The
8 legitimate costs of providing wastewater service, as well as water service, at this time must be
9 recognized in this case. This will transition the rates from the existing level to the future rates
10 necessary to support the new plant being added to the system. A smooth transition cannot be
11 accomplished by adopting Staff's proposed capital structure and return on capital.

12 LPSCO does not believe that failing to recognize the present cost of service is in the best
13 interest of LPSCO, its customers, or the ACC.

14 Q. Does this conclude your testimony?

15 A. Yes it does.
16
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LPSCO Sewer System

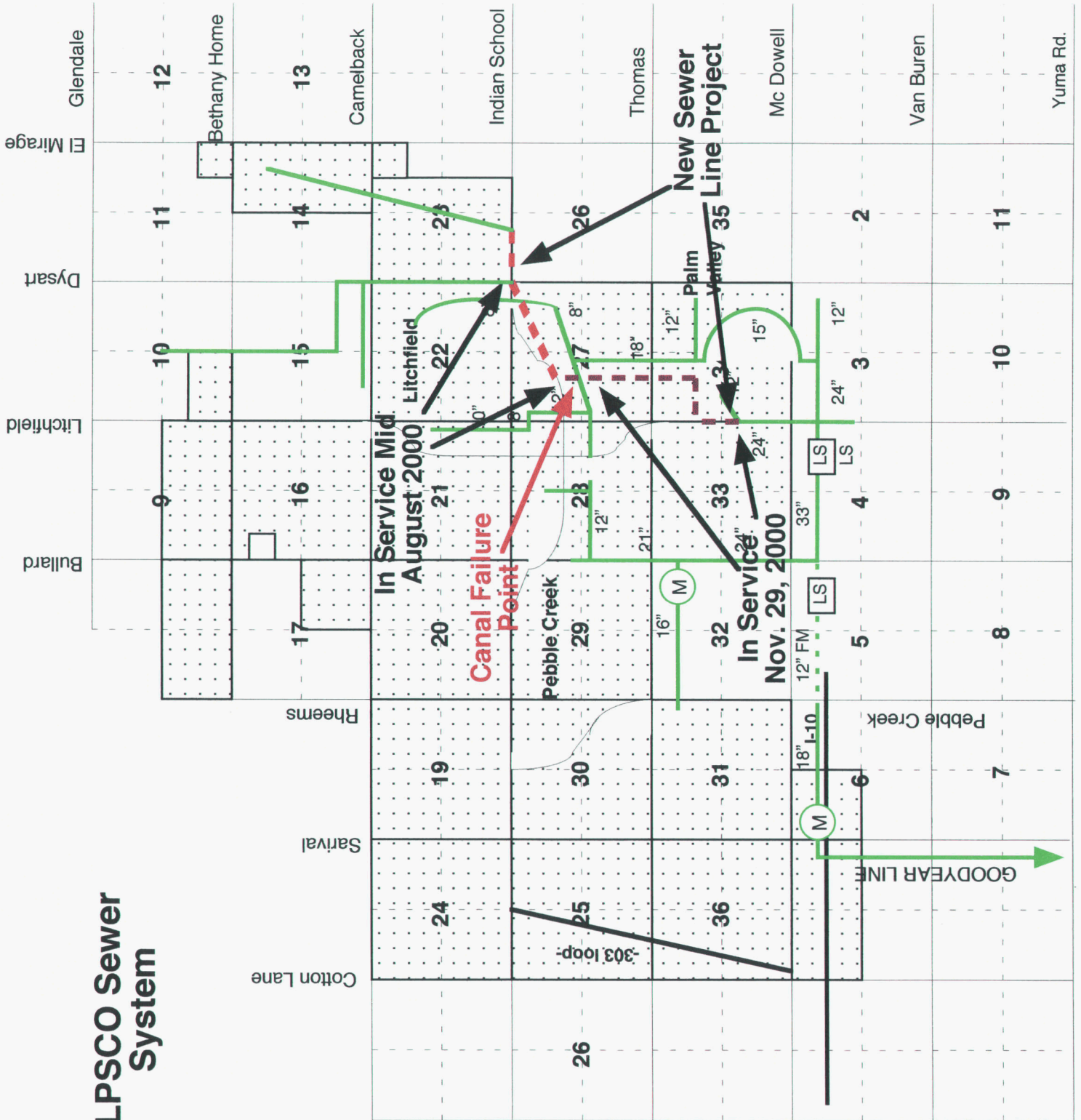


EXHIBIT A

WASTEWATER TREATMENT PLANT DEPRECIATION RATES

		<u>COST</u>	<u>USEFUL LIFE</u>	<u>DEPRECIATION</u>	<u>LPSCO FACTOR</u>	<u>LPSCO DEPRECIATION</u>
1980	WWTP (Phase I)	\$993,500		\$46,728	0.43	\$20,093
Pre-1993	Lab Equip	41,991	10	4,199	0.43	1,806
1991	Sanival Road Sewer	2,240,312	50	44,806	0.50	22,403
1993	WWTP (Phase II)	777,600		37,744	0.43	16,230
1993	Tertiary Treatment	361,600		17,957	0.43	7,722
1993	Surge Tank	321,152		16,176	0.43	6,956
	TOTAL	\$4,736,155		\$167,610		\$75,209

<u>WWTP (Phase I)</u>	<u>COST</u>	<u>USEFUL LIFE</u>	<u>DEPRECIATION</u>
Structural	\$367,000	40	\$9,175
Electrical	132,700	15	8,847
Building	47,000	40	1,175
Mechanical Equipment	230,000	15	15,333
Piping	157,600	15	10,507
Misc.	59,200	35	1,691
TOTAL	\$993,500		\$46,728

<u>WWTP (Phase II)</u>	<u>COST</u>	<u>USEFUL LIFE</u>	<u>DEPRECIATION</u>
Structural	\$282,763	40	\$7,069
Electrical	40,425	15	2,695
Building	0	40	0
Mechanical Equipment	271,807	15	18,120
Piping	121,852	15	8,123
Misc.	60,763	35	1,736
TOTAL	\$777,600		\$37,744

<u>WWTP Tertiary</u>	<u>COST</u>	<u>USEFUL LIFE</u>	<u>DEPRECIATION</u>
Treatment			
Structural	\$135,000	40	\$3,375
Electrical	32,150	15	2,143
Building	0	40	0
Mechanical Equipment	145,889	15	9,726
Piping	34,800	15	2,320
Misc.	13,761	35	393
TOTAL	\$361,600		\$17,957

<u>SURGE TANK</u>	<u>COST</u>	<u>USEFUL LIFE</u>	<u>DEPRECIATION</u>
Structural	\$120,000	40	\$3,000
Electrical	25,000	15	1,667
Mechanical Equipment	110,000	15	7,333
Piping	60,000	15	4,000
Misc.	6,152	35	176
TOTAL	\$321,152		\$16,176

WWTP (Phase I)	993,500		46,728
WWTP (Phase II)	777,600		37,744
WWTP Tertiary	361,600		17,957
Surge Tank	321,152		16,176

2,453,852

4

118,605

= 4.8% Composite

du Ellis
2/11/02

LPSCO/Dave Ellis Objectives for 2001

General

- Provide excellent customer service to LPSCO customers.
- Operate water & sewer system in compliance with environmental regulations.
- Maintain effective relations with Cities & Regulators.
- Work effectively with Palm Valley VP - provide support to project.
- Provide effective leadership. Expand, build & train LPSCO staff.

Specific

- Get WRF permitted.
- Get WRF built on time and at/under budget.
- Drill/upgrade 3 wells and build transmission system to meet summer water demand requirements.
- Conclude exit/sale agreement with the City of Goodyear for WWTP.
- Negotiate comprehensive water and sewer agreement with Globe.
- File and support new rate case. - ACC Interface -
- Maintain and update long and medium range water and sewer system planning.
- Establish and maintain effective O & M program for LPSCO facilities.
 - Invalant testing & Reinstating & Replacement
 - Valve
 - Backflow
 - Sewer replacement
- Effluent re-use -
- Secure financing for WRF -

1/23/01
EXHIBIT C

DOCKET W-01427 & WS-01428

TARIFF

Issued _____, 2002

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ISSUED BY:

Dave Ellis, General Manager
Litchfield Park Service Company
111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

60001.00000.19

Revised Exhibit C

EXHIBIT D

LITCHFIELD PARK SERVICE COMPANY

DOCKET W-01427 & WS-01428

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Dave Ellis, General Manager
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Litchfield Park, AZ 85340

LITCHFIELD PARK SERVICE COMPANY

DOCKET W-01427 & WS-01428

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ISSUED BY:

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111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

I. RATES

In Opinion and Order No. _____, dated _____, 2002, the Commission approved the following rates and charges to become effective with _____, 2002 usage.

<u>Meter Size</u> Inches	Usage Included in <u>Minimum Charge</u> Gallons	Minimum <u>Charge</u> Per Month
A. General Residential, Commercial, Industrial, and Irrigation Service		
5/8" x 3/4" Meter	-0-	7.30
3/4" Meter	-0-	9.00
1" Meter	-0-	15.90
1 1/2" Meter	-0-	31.25
2" Meter	-0-	62.95
4" Meter	-0-	144.25
8" Meter	-0-	242.00
10" Meter	-0-	356.00
12" Meter	-0-	483.00

The rate for use in addition to the minimum stated above shall be the same for all sizes of meters. Additional usage shall be at the following rate per 1,000 gallons:

<u>Consumption</u>	<u>Rate</u>
0-5,000	\$1.02
over 5,000	\$1.36

Issued _____, 2002

Effective _____, 2002

ISSUED BY:

Dave Ellis, General Manager
Litchfield Park Service Company
111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

DOCKET W-01427

Cancelling Sheet No.

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICEB. Construction Water¹

	Usage Included in <u>Minimum Charge</u> Gallons	<u>Minimum Charge</u> Per Month
2" Hydrant Meter ²	-0-	\$100.00

The rate for use in addition to the minimum stated above shall be the same for all sizes of meter. Additional usage shall be at the rate of \$2.50 per 1,000 gallons.

(i) HYDRANT RELOCATION:

When a Construction Meter is relocated to another hydrant or agreed upon location at the request of the Customer, there shall be a \$50 charge.

(ii) ON PEAK USE PREMIUM:

No construction water shall be used during the Company's peak hour demand periods as set forth below unless specifically allowed by the Company in writing:

Daily 5:00 AM to 9:00 AM

Use of construction water during the above periods shall result in a usage premium of \$2,000 for the first incident and \$5,000 for the second incident. On the third incident, construction water service will be terminated and no longer available to that customer or site for a minimum of 180 days.

¹ Construction water service shall be provided as an "as available" basis and is subject to interruption if such service would adversely impact on the water systems operation.

² Hydrant meters shall have a non-interest bearing deposit of \$1,500.00, refundable upon return of meter in good condition and payment of final bill.

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DOCKET W-01427

Cancelling Sheet No.

Applies to all WATER service areas**PART ONE****STATEMENT OF CHARGES****WATER SERVICE****(iii) UNAUTHORIZED CONSTRUCTION WATER USAGE:**

Any Developer, builder, contractor or subcontractor who uses water from a Company hydrant without first having formally requested such service and before paying the applicable charges under this Tariff, shall be subject to a stipulated water usage charge of \$1,000 for the first occurrence, and \$5,000 for the second and subsequent occurrences. The Company may refuse all water service to the property on which the unauthorized water usage occurred until the usage charge is paid and service properly established.

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ISSUED BY:

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Cancelling Sheet No.

Applies to all WATER service areas

PART ONE**STATEMENT OF CHARGES**
WATER SERVICE**II. TAXES AND ASSESSMENTS**

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-409(D)(5).

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ISSUED BY:

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111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

DOCKET W-01427

Cancelling Sheet No.

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

III. ADDITIONAL CHARGES

- | | | |
|----|--------------------------------------------------------|-------------------|
| A. | Establishment of Service | \$ 20.00 |
| | Per Rule R14-2-403D | |
| | (new customer charge, in addition to E, L and M below) | |
| | 1. If after hours | \$ 40.00 |
| B. | Re-establishment of Service | |
| | Per Rule R14-2-403D | Note ³ |
| | (same customer, same location within 12 months) | |
| C. | Reconnection of Service | \$ 50.00 |
| | Per Rule R14-2-403D | |
| | 1. If after hours | \$ 65.00 |
| D. | Charge for Moving Meter at Customer Request | Cost ⁴ |
| | Per Rule R14-2-405B | |

³ Number of months off system times the monthly minimum.⁴ See Sheet No. 9.

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111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

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Cancelling Sheet No.

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

- E. Minimum Deposit Requirement
Per Rule R14-2-403B
1. Residential customer (2 times estimated average monthly bill)
2. Non residential customer (2-1/2 times estimated maximum monthly bill)
3. Deposit Interest (per annum) 3.5%
- F. Meter test per Rule, If correct \$25.00 plus cost of test
Per Rule R14-2-408F
- G. Meter Reread \$ 5.00
Per Rule R14-2-408C
- H. Charge for NSF Check \$ 20.00
Per Rule R14-2-409F
- I. Deferred Payment Finance Charge 1.5%
Per month

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111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

DOCKET W-01427

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Applies to all WATER service areas**PART ONE****STATEMENT OF CHARGES**
WATER SERVICE

J.	Late Payment Charge Per Month	See Notes ^{5 6 7}
K.	Service Calls, per hour After hours only	\$40.00 ⁸

⁵ Greater of \$5.00 or 1.5% per month of unpaid balance.

⁶ Bills for utility services are due and payable when rendered. Any payment not received within fifteen (15) days from the date the bill was rendered shall be considered delinquent and subject to the termination policy set forth in the Company's rate tariff. All Late Payment Charges shall be billed on the customer's next regularly scheduled billing. If the customer fails to pay the Late Payment Charge by the due date on the next billing, the customer will receive a ten (10) day termination notice. If the customer does not pay the Late Payment Charges by that date the service will be terminated. Service shall be terminated only for that service for which the customer is delinquent or is in violation of other Tariff or Rule provisions. All customers whose service is terminated for failure to pay the Late Payment Charges are subject to the Company's reconnection charges set forth in the Company's tariff.

⁷ This charge shall not apply if the customer has arranged for a Deferred Payment Plan.

⁸ For service problem found to be on Customer's side of meter. Company will not repair problem.

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ISSUED BY:

Dave Ellis, General Manager
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Litchfield Park, AZ 85340

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Cancelling Sheet No.

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICEL. Meter Advance Policy^{9 10}Advance^{11 12}

3/4" Meter	\$225.00
1" Meter	\$300.00
1 1/2" Meter	\$500.00
2" Meter	\$675.00

Service Lines and
Meters over 2"Cost¹³M. Main Extension Tariff
Per Rule R14-2-406BCost¹⁵⁹ New Service is not available through 5/8" x 3/4" meters.¹⁰ The Meter Box/Vault will be provided by Company and installed by the Developer/Customer.¹¹ The Developer or Customer shall install the service line from the main to the property line in accordance with Company construction standards. This cost may be refundable under a Main Extension Agreement.¹² Refundable per Rule R14-2-405B.¹³ Per Sheet No. 9.

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ISSUED BY:

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111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

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Cancelling Sheet No.

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

IV. PERMITTED COSTS

- A. Costs shall be verified by invoice.
- B. For services that are provided by the Company at costs, cost shall include labor, materials, other charges incurred, and overhead not to exceed 10%. However, prior to any such service being provided, the estimated cost of such service will be provided by the Company to the customer. After review of the cost estimate, the customer will pay the amount of the estimated cost to the Company.
- C. In the event that the actual cost is less than the estimated cost, the Company will refund the excess to the customer within 30 days after completion of the provision of the service or after Company's receipt of invoices, timesheets or other related documents, whichever is later.
- D. In the event the actual cost is more than the estimated cost, the Company will bill the customer for the amount due within 30 days after completion of the provision of the service or after the Company's receipt of invoices, timesheets or other related documents, whichever is later. The amount so billed will be due and payable 30 days after the invoice date. However, if the actual cost is more than five percent (5%) greater than the total amount paid, the customer will only be required to pay five percent (5%) more than the total amount paid, unless the Company can demonstrate that the increased costs were beyond its control and could not be foreseen at the time the estimate for the total amount paid was made.

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111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

DOCKET W-01427

Cancelling Sheet No.

Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

E. At the customer's request, the Company shall make available to the customer all invoices, timesheets or related documents that support the cost for providing such service.

F. Permitted costs shall include any Federal, State or local taxes that are or may be payable by the Company as a result of any tariff or contract for water facilities under which the Customer advances or contributes funds or facilities to the Company.

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Dave Ellis, General Manager
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111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

DOCKET W-01427

Cancelling Sheet No.

Applies to all WATER service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

I. CROSS-CONNECTION CONTROL

A. Purpose.

To protect the public water supply in the Company's water supply in the Company's water system from the possibility of contamination caused by backflow through unprotected cross-connections by requiring the installation and periodic testing of backflow-prevention assemblies pursuant to the provisions of the Arizona Administrative Code, Title 14, Chapter 2, Section 405.B.6 as adopted by the Arizona Corporation Commission, and Title 18, Chapter 4, Section 115, as adopted by the Arizona Department of Environmental Quality, or Maricopa County Environmental Services Division, as those regulations may be revised from time to time.

B. Inspections.

The customers shall cooperate fully with the Company in its efforts to investigate and determine the degree of potential health hazard to the public water supply which may result from conditions existing on the customer's premises.

C. Requirements.

In compliance with the Rules and Regulations of the Arizona Corporation Commission and the Arizona Department of Environmental Quality, specifically A.A.C. R14-2-405.B.6 and A.A.C. R18-4-115 relating to backflow prevention:

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ISSUED BY:

Dave Ellis, General Manager
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Litchfield Park, AZ 85340

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Cancelling Sheet No.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

1. The Company may require a customer to pay for and have installed, maintain, test and repair a backflow-prevention assembly if A.A.C. R18-4-115.B or C applies.

2. A backflow-prevention assembly required to be installed by the customer under this tariff shall comply with the requirements set forth in A.A.C. R18-4-115.D and E.

3. The Company shall give any customer who is required to install and/or test a backflow-prevention assembly written notice of said requirement. If A.A.C. R14-2-410.B.1.a. is not applicable, the customer shall be given thirty (30) days in which to comply with this notice. If the customer can show good cause as to why he cannot install the device within thirty (30) days, the Company or the Arizona Corporation Commission Staff may grant additional time for this requirement.

4. Testing shall be in conformance with the requirements of A.A.C. R18-4-115.F. and Maricopa County Environmental Services Division. The Company shall not require an unreasonable number of tests.

5. The customer shall provide the Company with records of installation and testing. For each backflow-prevention assembly, these records shall include:

Issued _____, 2002

Effective _____, 2002

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111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

DOCKET W-01427

Cancelling Sheet No.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

- a. assembly identification number and description;
- b. location;
- c. date(s) of test(s);
- d. description of repairs made by tester; and
- e. tester's name and certificate number.

D. Discontinuance of Service.

In accordance with A.A.C. R14-2-407 and 410 and provisions of this tariff, the Company may terminate service or deny service to a customer who fails to install and/or test a backflow-prevention assembly as required by this tariff.

1. In the event the backflow-prevention assembly has not been installed or fails any test and A.A.C. R14-2-410.B.1.a. is applicable, the Company may terminate service immediately and without notice. The backflow-prevention assembly shall be installed and repaired by the customer and retested before service is restored.

2. In the event the backflow-prevention assembly has not been installed or fails any test and A.A.C. R14-2-410.B.1.a. is not applicable, the backflow-prevention assembly shall be installed and/or repaired by the customer and tested within fourteen (14) days of written notice by the Company. Failure to install or to remedy the deficiency or dysfunction of the assembly, or failure to retest shall be grounds for termination of water utility service in accordance with A.A.C. R14-2-410.

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ISSUED BY:

Dave Ellis, General Manager
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111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

DOCKET W-01427

Cancelling Sheet No.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

II. INTERRUPTIBLE SERVICE; COMPANY'S LIABILITY
LIMITATIONS

A. The Company will supply only such water at such pressures as may be available from time to time as a result of the normal operation of its water system. The Company will maintain a minimum water pressure of 20 p.s.i. and will not guarantee a specific gallons per minute flow rate at any public fire hydrants or fire sprinkler service. In the event service is interrupted, irregular or defective, or fails from causes beyond the Company's control or through ordinary negligence of its employees or agents, the Company will not be liable for any injuries or damages arising therefrom.

III. RULES AND REGULATIONS

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. A.A.C. R14-2-401 through A.A.C. R14-2-411 will be controlling of Company procedures, unless specific Commission Order(s) provide otherwise.

Issued _____, 2002

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ISSUED BY:

Dave Ellis, General Manager
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111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

DOCKET WS-01428

Cancelling Sheet No.

Applies to all WASTEWATER service areas

PART THREE

STATEMENT OF CHARGES
WASTEWATER SERVICE

I. RATES

In Opinion and Order No. _____, dated _____, 2002, the Commission approved the following rates and charges to become effective with _____, 2002 billings:

<u>Description</u>	<u>Rate</u>
Residential Service – Per Month	\$ 32.55
Multiple Unit Service – Per Unit/Month	25.00
MUS – Wigwam – Per Unit/Month	25.00
Wigwam – Main Building	1,000.00
Litchfield Park Elementary	725.00
Palm Valley Elementary	725.00
Western Sky Middle School	1,000.00
Millennium High School	1,000.00
Estrella Community College	1,600.00
Commercial:	
Flat Rate Small Commercial – Per Month	60.00
Measured Service:	
Regular Domestic:	
Monthly Service Charge	25.75
Rate Per 1,000 Gallons of Water Usage	2.75
Restaurants, Motels, Grocery Stores & Dry Cleaners:	
Monthly Service Charge	25.75
Rate Per 1,000 Gallons of Water Usage	3.25
Effluent or Reclaimed Water – Per Acre Foot	Market Rate

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ISSUED BY:

Dave Ellis, General Manager
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111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

DOCKET WS-01428

Cancelling Sheet No.

Applies to all WASTEWATER service areas**PART THREE****STATEMENT OF CHARGES
WASTEWATER SERVICE****II. TAXES AND ASSESSMENTS**

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).

III. ADDITIONAL CHARGES

A.	Establishment of Service per Rule R14-2-603D (new customer charge, in addition to D, I and J below)	\$20.00 ¹⁴
1.	If after hours	40.00
B.	Re-establishment of Service per Rule R14-2-603D (same customer, same location within 12 months)	Note ¹⁵
C.	Reconnection of Service Per Rule R14-2-603D	50.00
1.	If after hours	65.00

¹⁴ Initial monthly billing under PART THREE I to new wastewater service for homes under construction shall commence no sooner than 30, and no more than 60 days after the water meter is installed. Wastewater billing to new service at existing locations shall be pro-rated from the start of service.

¹⁵ Number of months off system times the sum of the monthly minimum.

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ISSUED BY:

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111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

DOCKET WS-01428

Cancelling Sheet No.

Applies to all WASTEWATER service areas**PART THREE****STATEMENT OF CHARGES
WASTEWATER SERVICE**

D.	Deposit Requirement ¹⁶ per Rule R140-2-603B	
1.	Residential customer	(2 times estimated average monthly bill)
2.	Non-residential customer	(2-1/2 times estimated maximum monthly bill)
3.	Deposit Interest	3.5%
E.	Charge for NSF Check per Rule R14-2-608E ¹⁷	\$20.00
F.	Deferred Payment Finance Charge, per month ¹⁸	1.5%

¹⁶ The Company does not normally require a deposit prior to the provision of service. However, if the service is not in the property owner's name, this deposit is required. Also in the event service is disconnected due to nonpayment, this deposit may be required.

¹⁷ This charge shall not apply if wastewater service is paid with the same NSF check used to pay for water service for which a NSF fee is charged.

¹⁸ Deferred payments for wastewater service are only available if established in connection with deferred payments for water service under PART ONE, III(I) of this tariff.

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ISSUED BY:

Dave Ellis, General Manager
Litchfield Park Service Company
111 W. Wigwam Blvd.
Litchfield Park, AZ 85340

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Applies to all WASTEWATER service areas**PART THREE****STATEMENT OF CHARGES
WASTEWATER SERVICE**

- | | | |
|----|-----------------------------------------------------------|-------------------------------|
| G. | Late Payment, Per Month, per Rule R14-2-608F | See Notes ^{19 20 21} |
| H. | Service Calls, per hour
After hours only | \$40.00 ²² |
| I. | Service Lateral Connection Charge-All Sizes ²³ | See Note ²⁴ |
| J. | Main Extension Tariff, per Rule R14-2-606B | Cost ²⁵ |

¹⁹ Greater of \$5.00 or 1.5% per month of the unpaid balances.

²⁰ This charge shall not apply if the customer has arranged for a Deferred Payment Plan.

²¹ Bills for utility services are due and payable when rendered. Any payment not received within fifteen (15) days from the date the bill was rendered shall be considered delinquent and subject to the termination policy set forth in the Company's rate tariff. All Late Payment Charges shall be billed on the customer's next regularly scheduled billing. If the customer fails to pay the Late Payment Charge by the due date on the next billing, the customer will receive a ten (10) day termination notice. If the customer does not pay the Late Payment Charges by that date the service will be terminated. Service shall be terminated only for that service for which the customer is delinquent or is in violation of other Tariff or Rule provisions. All customers whose service is terminated for failure to pay the Late Payment Charges are subject to the Company's reconnection charges set forth in the Company's tariff.

²⁴ This charge shall not apply if the customer has arranged for a Deferred Payment Plan.

²⁵ For service problem found to be on Customer's side of lot line. Company will not repair problem.

²⁶ The Customer/Developer shall install or cause to be installed all Service Laterals as a non-refundable contribution to the Company. Gross-up taxes, if any, shall be paid by the Company. The Company shall own the Service Lateral up to the Customer's property line. The Customer shall own the Service Lateral beyond that point. The Company shall maintain and operate the Service Lateral only from the connection to the main line in the street or right-of-way up to its interconnection with the Customer's Service Lateral at the edge of the right-of-way, beyond which maintenance is the Customer's responsibility.

²⁷ All Main Extensions shall be completed at cost per Sheet No. 20 and shall be non-refundable Contributions-in-Aid-of-Construction.

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K. Off-Site Facilities Hook-Up Fee-Wastewater

1. Applicability: In addition to any other Commission approved charges and requirements for Service Lateral Connection Charges and on-site facilities to be installed pursuant to Main Extension Agreements, the following Off-Site Facilities Hook-Up Fee is applicable to all new Service Connections located within property that is located in the Certificate of Convenience and Necessity Extension Areas of the Company for which Off-Site Facilities cost have not been paid by the Applicant under separate agreement. Extension Areas are defined as the geographic area added to the Company's Certificate of Convenience and Necessity by Commission Order after the effective date of this Tariff.
2. Purpose: To equitably apportion the costs of off-site wastewater facility development among all new Service Connections.
3. Definitions:

"Applicant" means any party entering into an agreement with Company for the installation of wastewater facilities to serve new Service Connections.

"Company" means Litchfield Park Service Company.

"Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of wastewater facilities to Company to serve new Service Connections, or install wastewater facilities to serve new Service Connections and transfer ownership of such wastewater facilities to Company.

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"Off-Site Facilities" means treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenance necessary for proper operation, including engineering and design costs. Off-Site Facilities may also include lifts stations, force mains, trunk collection mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of Applicant.

"Residential Equivalent Units" or "REU's" mean the gallonage inflow to the Company's treatment facilities generated by a single-family residential customer, 320 gallons per day.

"Service Connection" means and includes all Service Connections for single-family residential or other uses, regardless of service lateral size.

4. Off-Site Facilities Hook-Up Fee: Each new Service Connection shall pay the total Off-site Facilities Hook-up Fee based on the following:

4" Service Laterals	-	\$1,500 per service connection
All Commercial Properties or Non-Standard Residential Service Laterals	-	\$1,500 per REU

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WASTEWATER SERVICE**5. Terms and Conditions:

- A. Time of Payment: In addition to the amounts to be advanced pursuant to a Main Extension Agreement, the Applicant for new wastewater services shall pay the Company the Off-Site Facilities Hook-Up Fee as determined by service lateral size, number of connections or REU's of any commercial or non-standard residential facilities to be installed pursuant to the Main Extension Agreement. Payment of the Off-Site Facilities Hook-Up Fee shall be made at the time of execution of the Main Extension Agreement.
- B. Off-Site Facilities Hook-Up Fee Refund: The total Off-Site Hook-Up Fee amounts collected by the Company pursuant to the Off-Site Facilities Hook-Up Fees shall be refundable advances in aid of construction pursuant to Commission Rule for a period of fifteen (15) years after which the non-refunded balance shall become a contribution in aid of construction to the Company.
- C. Trust Account: All funds collected by the Company as Off-Site Facilities Hook-Up Fees shall be accounted for separately and used for the purpose of paying for the costs of Off-Site Facilities, including repayment of loans obtained for the installation of Off-Site Facilities.
- D. Disposition of Excess Funds: After all necessary and desirable Off-Site Facilities are constructed utilizing funds collected pursuant to the Off-Site Facilities Hook-Up Fee or the Off-Site Facilities Hook-Up Fee has been terminated by order of the Commission, any funds remaining shall be expended as approved by the Director of the Utilities Division of the Commission.

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PART THREE**STATEMENT OF CHARGES
WASTEWATER SERVICE****IV. PERMITTED COSTS**

- A. Costs shall be verified by invoice.
- B. For services that are provided by the Company at cost, cost shall include labor, materials, other charges incurred, and overhead. However, prior to any such service being provided, the estimated cost of such service will be provided by the Company to the customer. After review of the cost estimate, the customer will pay the amount of the estimated cost to the Company.
- C. In the event that the actual cost is less than the estimated cost, the Company will refund the excess to the customer within 30 days after completion of the provision of the service or after Company's receipt of invoices, timesheets or other related documents, whichever is later.
- D. In the event the actual cost is more than the estimated cost, the Company will bill the customer for the amount due within 30 days after completion of the invoices, timesheets or other related documents, whichever is later. The amount so billed will be due and payable 30 days after the invoice date.
- E. At the customer's request, the Company shall make available to the customer all invoices, timesheets or related documents that support the cost for providing such service.
- F. Permitted costs shall include any Federal, State or local taxes that are or may be payable by the Company as a result of any tariff or contract for wastewater facilities under which the Customer advances or contributes funds or facilities to the Company.

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Applies to all WASTEWATER service areas**PART FOUR****STATEMENT OF TERMS AND CONDITIONS
WASTEWATER SERVICE****I. CUSTOMER DISCHARGE TO SYSTEM****A. Service Subject to Regulation**

The Company provides wastewater service using treatment and collection facilities that are regulated by numerous county, state and federal Statutes and Regulations. Those Regulations include limitations as to domestic strength wastewater and the type of wastewater that may be discharged into the system by any person directly or indirectly connected to the plant.

B. Waste Limitations

The Company has established the permissible limits of concentration as domestic strength wastewater and will limit concentration for various specific substances, materials, waters, or wastes that can be accepted in the sewer system, and to specify those substances, materials, waters, or wastes that are prohibited from entering the sewer system. Each permissible limit so established shall be placed on file in the business office of the Company, with a copy filed with the Commission. No person shall discharge, or cause to be discharged, any new sources of inflow including, but not limited to, storm water, surface water, groundwater, roof runoffs, subsurface drainage, cooling water, or polluted industrial process waters into the sanitary sewer. The Company will require an affidavit from all commercial and industrial customers, and their professional engineer, stating that the wastewater discharged to the system does not exceed domestic strength.

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WASTEWATER SERVICE****C. Inspection and Right of Entry**

Every facility that is involved directly or indirectly with the discharge of wastewater to the Treatment Plant may be inspected by the Company as it deems necessary. These facilities shall include but not be limited to sewers; sewage pumping plants; all processes; devices and connection sewers; and all similar sewerage facilities. Inspections may be made to determine that such facilities are maintained and operated properly and are adequate to meet the provisions of these rules. Inspections may include the collection of samples. Authorized personnel of the Company shall be provided immediate access to all of the above facilities or to other facilities directly or indirectly connected to the Treatment Plant at all reasonable times including those occasioned by emergency conditions. Any permanent or temporary obstruction to easy access to the user's facility to be inspected shall promptly be removed by the facility user or owner at the written or verbal request of the Company and shall not be replaced. No person shall interfere with, delay, resist or refuse entrance to an authorized Company representative attempting to inspect any facility involved directly or indirectly with a discharge of wastewater to the Treatment Plant. Adequate identification shall be provided by the Company for all inspectors and other authorized personnel and these persons shall identify themselves when entering any property for inspection purposes or when inspecting the work of any contractor.

All transient motor homes, travel trailers and other units containing holding tanks must arrive at the Company's service area in an empty condition. Inspection will

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STATEMENT OF TERMS AND CONDITIONS
WASTEWATER SERVICE

be required of said units prior to their being allowed to hookup to the wastewater system.

D. Termination of Water Service for Violation of Wastewater Rules and Regulations

The Company is authorized to discontinue water service to any person connected to both its water and sewer systems who violates the Company's wastewater terms and conditions as set forth in this PART FOUR or in any way creates a public health hazard or the likelihood of such a public health hazard. This termination authority does not apply to non-payment for water or wastewater services.

II. RULES AND REGULATIONS

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. A.A.C. R14-2-601 through A.A.C. R14-2-609 will be controlling of Company procedures, unless specifically approved tariffs or Commission Order(s) provide otherwise.

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